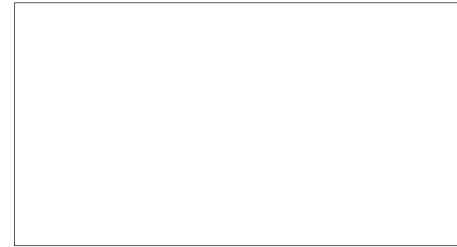




Director of
Central
Intelligence

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POLAND: Economic Reform Stalled

Progress toward economic reform is being stalled by the regime's concern about maintaining political control. [redacted]

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The government has allowed extensive debate of economic reform in the press, featuring articles by proreform writers. In addition, an experienced Polish economist recently commented to a US Embassy officer that the new head of the Planning Commission, Manfred Gorywoda, is a strong advocate of reform who will cooperate with the Minister of Reform. [redacted]

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Last month at a party plenum, however, Gorywoda pledged tighter central control of wages, prices, production, and raw material procurement. In January 1982 the government agreed—at least on paper—to allow enterprises to make their own decisions on these matters. [redacted]

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In addition, over the last two years the government has not permitted most firms to use their own hard currency earnings freely, has continued to bail out firms in financial trouble instead of permitting bankruptcy, and has severely curbed workers' self-management powers. These were once considered the most important of the reforms. [redacted]

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Comment: The regime has weakened economic reform, in part because it fears the political consequences of further price increases and links between wages and productivity. It also fears that economic reform eventually will raise the specter of political reform. Without reforms, prospects remain dim for economic recovery and for the improvements in export performance needed to solve the debt problem. [redacted]

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EAST GERMANY: Prospects for Force Modernization

East Germany seems ready to increase defense spending to help pay its share of Warsaw Pact modernization. [REDACTED]

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Defense Minister Hoffmann, in a recent speech at a session of the party Central Committee, claimed that INF missiles and other new NATO weapons justify continued improvement in East German weapons, training, and civil defense. He also conceded, however, that current economic conditions would make it difficult to carry out such measures. Last week the regime announced a 7.2-percent increase in defense spending for 1984, the largest since 1980. [REDACTED]

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Party chief Honecker repeatedly has said that East Germany has to bear part of the cost of Warsaw Pact "countermeasures" to INF deployment. [REDACTED]

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Comment: The East Germans, like the other non-Soviet Warsaw Pact members, for years have resisted Soviet pressure to modernize their forces. The East Germans have done more than the others, however, and East Germany's defense spending recently has outstripped its growth in GNP. Although Hoffmann's remarks suggest that the regime is prepared to do more, they apparently also are designed to justify for the populace more austerity measures and to excuse other economic problems. [REDACTED]

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Living standards appear to have fallen in 1983 for the second straight year, as growth has slowed and the government pushed exports to the West to pay its hard currency debts. Hoffmann's speech suggests that the regime is trying to use INF deployments to justify more austerity measures. [REDACTED]

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East Germany's ability to pay for modernization has been hampered by troubled economic relations with its allies, particularly deteriorating terms of trade with the USSR and limited Soviet deliveries of raw materials. Slower growth and the continuing need to run hard currency trade surpluses to avert a financial crisis suggest that the consumer and domestic investment will bear the brunt of the additional burden. [REDACTED]

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AUSTRALIA-US: Implications of Drydock Dispute

Australia's decision last week to deny drydock access in Sydney to a British aircraft carrier after its captain refused to state whether the ship was carrying nuclear weapons could mark a policy change that would affect access for US warships. Although the ship was not prevented from mooring in Sydney harbor, Canberra claimed that drydocking the ship would violate government policy forbidding nuclear weapons on Australian soil. Australian officials privately maintain, however, that the denial involved factors beyond the nuclear question. []

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Comment: Prime Minister Hawke apparently approved the decision. The Labor government may have been reacting to pressure from the party's left wing and probably did not consider carefully the implications for the US and the ANZUS alliance. Canberra is now reviewing its position and might cite "special circumstances" to back away from the decision. []

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WESTERN EUROPE: New Fighter Aircraft Study

The US defense attache in Bonn reports that West Germany, France, the UK, Italy, and Spain will announce this week a joint study for collaborating on a new fighter aircraft, which would replace existing F-4s, F-104s, and Jaguars in the 1990s. Although the British and West German Air Forces prefer the US F-16 or F-18 as a future fighter, political considerations have pushed the Europeans to explore cooperative development. []

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Comment: The willingness of the West German Ministry of Defense to agree to French and British arguments was the key for the program. Although the West Germans saw their recent air defense agreement with the US as a step in the right direction, the West Europeans remain dissatisfied with the US record on the two-way street in defense procurement. The announcement also reflects the Europeans' desire to protect domestic aerospace industries. Interest in a collaborative effort apparently is strong enough to overcome any fears about the cost overruns that marred previous fighter codevelopment programs. Widely divergent national requirements for the aircraft, however, may delay completion of the study. []

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USSR: Seeking an Increase in Exports

The USSR evidently is pressing those trade partners with which it traditionally runs large trade deficits to increase purchases of Soviet goods. A Western diplomat in Moscow says that recent grain negotiations with the Canadians broke down when Moscow insisted on achieving a better bilateral trade balance. Talks on terms for a possible Australian meat sale were terminated as a result of demands that Australia buy more Soviet goods. In October negotiations with the Japanese for large-diameter pipe reportedly also were halted because the Soviets demanded that the Japanese buy an unusually large amount of machinery and equipment. [REDACTED]

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Comment: The Soviets for years have been urging their trade partners to keep bilateral accounts in better balance by increasing their purchases of Soviet goods. They have had only limited success, however, because of the poor quality of their products. The good grain crop and record meat output this year, on the other hand, have improved the Soviets' negotiating position. As the USSR has begun to produce its own large-diameter pipe, Moscow also may believe it is in a stronger position to demand concessions from companies that export such pipe. [REDACTED]

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AUSTRALIA: New Effort To Halt Currency Speculation

The announcement by Canberra on Friday that the Australian dollar will now float freely against other currencies follows the flow into the country last week of \$1.4 billion in speculative capital. The government hopes this move will end large-scale speculation by raising the value of the Australian dollar. The Australian Reserve Bank, meanwhile, temporarily suspended foreign exchange dealings until today to prevent the entry of additional funds. [redacted]

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Comment: Australia has tried unsuccessfully since early this summer to discourage speculative capital flows, which are hindering government efforts to control inflation through tight monetary policy. The country's large balance-of-payments surplus—an estimated \$3 billion this year—has undermined this strategy by encouraging speculators to believe that the Australian dollar is undervalued. The decision to allow the currency to float will hurt exports as the Australian dollar appreciates. Canberra apparently has decided, however, that this is a more effective step than permanent restraints on currency trading. [redacted]

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COLOMBIA: Marijuana Production

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[redacted] marijuana cultivation in Colombia this year has increased 60 percent over the drought-affected crop in 1982. Marijuana continues to be grown on a large scale in the northeastern departments, despite the government's manual crop eradication and interdiction efforts. The US Embassy reports that some Colombian officials favor adoption of aerial spray eradication techniques similar to those used in Mexico and the US, but President Betancur so far has given no sign of support for such a program. [redacted]

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Comment: Approximately 11,000 tons of the 13,500-metric-ton harvest this year probably will be shipped to the US. This would be comparable to exports during 1979-81 and enough to supply 80 percent of annual marijuana consumption in the US. In 1982, 6,200 tons were shipped to the US. [redacted]

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